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## THE PROBLEM OF SCHOOL FINANCE

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Finance is a factor in every phase of civilized life. Whatever the other problems may be which perplex us individually or collectively, finance is inevitably one which must be taken into account. Human nature is such that wants tend to outrun the means for meeting them. Hence the universal problem of finance.

Education is only one of the many things that people want. It must compete for financial support with every other desire of the human heart. Moreover, in this competition it is relatively at a decided disadvantage. Schooling is an investment not made ordinarily for the direct personal advantage of the investor, and its benefits, instead of being enjoyed to the full at once, are long deferred. It may be as easy for people to spend for their own children as for themselves, but this generosity does not ordinarily extend to the children of other people, and it is a matter of common observation that children and money are apt to be found in inverse ratio. Then, too, it is easier for everyone to spend for immediate enjoyment than for that which will reach fruition only after long years.

Teachers have never concerned themselves sufficiently with the problem of school finance. As a group, we have seemingly assumed a somewhat fatalistic attitude toward it. We are not indifferent to it when we are pinched by the lessened purchasing power of the dollar, but our expectation of a genuine remedy seems only half-hearted.

Possibly it may be bootless to discuss the causes for this situation. Is it, as some critics imply, that teachers are rather impractical creatures, given over to visionary and theoretical considerations, and oblivious to matters which appeal to the business man? Or is it that the ideal of service, traditional with teachers, appears incongruous with financial affairs? Or, as seems most



likely, is it merely that teachers have not turned their attention particularly in this direction?

Whatever its causes may be, this situation should not be allowed to continue. Our position would be much strengthened, and we should at the same time be better teachers if we had a thorough, first-hand, practical grasp of the problem of school finance. We ought to be the leaders in our communities in all matters relating to education. Ignorance is always weakness. We can as ill afford to be in ignorance of the financial support of the schools as can the business man of his finances.

There is an additional reason for the consideration of this topic at this time. Most of the state legislatures have recently adjourned after being in session since early in January. Whatever has been or has not been done in our legislatures must stand unchanged for two years. These are two years of opportunity. The best time to begin preparing for a meeting of the legislature is not on the day it convenes, but on the day the previous legislature adjourns.

For these various reasons I now invite your attention to some of the rudiments of school finance. In doing this it is necessary to make use of some statistical material, but the attempt will be made to limit the discussion to easily verifiable facts and figures.

One of the things we should have a clear understanding about is price. Price is the measure of value in terms of money. It is determined by the relation between demand and supply, not only of the articles priced, but of money also. If demand increases while supply remains constant, the price of commodities will rise. If the supply increases while the demand remains constant, the price will fall.

Several factors entered into the rise of prices in connection with the war. The war gave an extraordinary impetus to demand, and, by removing all able-bodied men from production, greatly lessened supply, thereby doubly boosting prices. A similar increased demand and lessened supply in the case of labor had a like effect on wages and thereby became a factor in raising prices. Again, the importation of gold to maintain trade balance, the issuance of bonds to finance our participation in the war, and the general expansion of credit—all had the effect of increasing prices.



Prices are never fixed or stationary. Even in normal times the price curve is constantly rising or falling. From shortly after the Civil War until 1893, the movement was in general downward. After 1893 the trend of prices was gradually but steadily upward until the recent war suddenly sent them skyward with an increase of 100 per cent over pre-war prices. The peak of high prices was reached about the middle of 1920, and since then the trend has been downward again.

The index number is a device used by statisticians and economists to indicate the effect of shifting prices upon the cost of living. Such an index number expresses the ratio between the average of the prices of a large number of essential commodities at one time in comparison with such prices at another time. The commodities are not of equal value in arriving at the index number, but are duly weighted in accordance with their importance in consumption. In the United States there are five index-number systems. Of these the most complete and most carefully weighted is that of the United States Bureau of Labor Statistics.

Every investigation of the cost of living shows that the war had the effect of doubling it. Royal Meeker, United States Commissioner of Labor Statistics, found that \$1,000 in December, 1914, would buy as much as \$1,954 in December, 1919, and prices increased for six months after the end of the period covered by his investigation. The National Industrial Conference Board, a federation of manufacturers' associations, maintains a research department, which reported the cost of living in July, 1920, as 104.5 per cent higher than in 1914. There can be no doubt that the cost of living increased not less than 100 per cent in the six years from July, 1914, to July, 1920.

It is the discrepancy in the variation of prices, and not the general trend of prices upward or downward, that causes trouble in a period of rapidly changing prices. Price is expressed in money, and money is the medium which makes possible the exchange of services. If all prices varied together, the purchasing power of everyone would remain unchanged. If any service or commodity lags behind the general increase in prices, people generally profit at the expense of those who render such service or make such com-



modities. In the forward march of prices during the war and after, the salaries of teachers fell far to the rear of the procession.

The increase in the cost of living had the effect of cutting salaries in two as measured by purchasing power, except to the extent that the decrease in purchasing power was offset by an increase in salary. When the stress of war came, the taxing machinery proved to be too inelastic to permit the increase in the number of salary dollars to keep pace with the decrease in dollar value. As a result, all through the six years of rapidly rising prices, teachers suffered increasingly from the constantly shrinking purchasing power of their salaries. For instance, when prices reached their peak in 1920 with an increase of 100 per cent, the salaries of Spokane teachers had increased only 30 per cent. It is doubtful if at that time the salaries of teachers anywhere had increased more than 50 per cent.

The use of the present dollar as the measure of value vitiates the thinking of people about salaries. Not taking sufficiently into account the change in the value of the dollar itself, they think of increase in salary as if that denoted increase in that which teachers receive in actual purchasing power. In order to think straight about salaries it is essential to remember that the dollar itself rises and falls in value. A general rise in prices is only another way of expressing a fall in the comparative value of money.

The dollar is so inaccurate and unsatisfactory a measure of value that one of our foremost economists, Professor Irving Fisher, of Yale University, has suggested the substitution of an index-number dollar of unvarying purchasing power in place of the present gold-standard dollar.

Whether or not it is practicable to have an index-number dollar with which to maintain uniform purchasing power, it should not be too much to expect the public to protect teachers by increasing the number of dollars which they receive sufficiently to compensate for the lessened value of such dollars. To make this possible involves a readjustment of the tax machinery of the various states to meet the conditions created by the war. This fact suggests the imperative need for teachers to have an intimate knowledge of taxation and tax reform as phases of the problem of school finance.



Taxes are the expenditures which people make for what they buy and use in common. Such collective use of things is an index of civilization. As civilization advances, men become more and more co-operative and interdependent. It is better for a sidewalk to be made and paid for collectively than for each individual householder to determine for himself whether or not he will have a sidewalk in front of his property. It is better for a city to own many books of many kinds in a public library than it is for each person to attempt to own all the books he needs for his own use. It is better for a community to have public schools than it is for each parent to try to teach his own children.

The trend of civilization is in the direction of meeting needs collectively, rather than individually. This implies a corresponding trend toward increasing collective expenditures. In other words, under modern conditions taxation tends constantly to increase because people feel that many phases of life would be made better and more secure by common action. Every time a state legislature meets, new laws are enacted which provide for various kinds of uniformity and necessarily involve increased expenditures. In every state and in the nation as a whole, taxation has increased faster than population. In the last decade in Washington the population increased 18.6 per cent; property valuation increased 31.7 per cent; and the cost of state government increased 260 per cent.

Because of these constantly expanding community expenditures to meet community needs, former taxing methods and machinery are no longer adequate. This inadequacy, manifest long before the war, has now reached a critical state because of the war. Practically every state in the Union is searching for, or trying out, new solutions to the problem of taxation.

Schools of all kinds everywhere are suffering from the virtual breakdown of taxation. Because of the shrinkage in the purchasing power of the dollar, constitutional or other legal taxing limits are such that the revenue from taxation is insufficient to maintain them on the former level of efficiency. Merely to raise present legal taxing limitations is only a temporary and makeshift solution to the problem. What is needed is a thoroughgoing revision



of taxing methods and machinery. Already thirty-four states have brought about some degree of reform into their tax systems, and all the states have the matter under discussion.

The state of Washington well illustrates the uniform property tax idea which has broken down. The state constitution provides that "all property in the State not exempt under the laws of the United States or in this Constitution shall be taxed in proportion to its value . . . so that every person or corporation shall pay a tax in proportion to the value of his, her, or its property." It is such a clause in state constitutions which has been the chief stumbling-block in the way of tax reform.

In the thirty-two years of its existence as a state, Washington has swiftly passed through all the stages of transition from pioneer to modern conditions of living. In its early days practically all its wealth was in tangible forms, such as land, houses, live stock, furniture, etc., which could be seen and taxed. Now it is estimated that more than two-thirds of its wealth is in intangible or invisible forms, such as mortgages, notes, credits, accounts, money, certificates of deposit, tax certificates, judgments, bonds, stocks, and warrants, much of which escapes taxation. Previous to 1907 this intangible property was subject to taxation, but very little was placed upon the tax rolls. In that year the legislature legalized the situation already existing by exempting all intangibles except money from taxation. Money is still subject to taxation but with what degree of success may be judged from the fact that while the deposits in the Spokane banks average about fifty million dollars, the total assessed valuation of all personal property in Spokane, including money, is less than fifteen million dollars. It has not been found practicable any place to tax intangible property on the same basis as the tangible is taxed.

Out of this tax situation has grown in Washington as elsewhere a train of evils and gross inequalities. It is estimated that not to exceed one-tenth of the personal property in Washington is assessed and that the taxes on that one-tenth are paid by those least able financially to pay. One of the accepted tenets in taxation is that people should pay in proportion to their ability. As it works out in practice, with a general property tax as a basis, they pay rather



in proportion to their inability to escape. As a result, while intangible property virtually pays no tax, real estate is taxed to a degree that threatens confiscation. In Spokane and in many other cities the owners of hundreds of vacant lots are permitting them to revert to the cities in lieu of further payment of taxes on them.

At the same time the fortunate owner of intangible property reaps all the benefits of government without paying his proportionate share of governmental expense. For instance, suppose a man has a thousand dollars saved up which he wishes to apply on the purchase of a five thousand dollar piece of property as a home. He borrows four thousand dollars and gives a mortgage for that amount on the property which is thereafter assessed in his name. He has a thousand dollars invested in a home but must pay taxes upon its total assessed valuation, while the owner of the mortgage, with an investment four times as great, pays not a cent of tax upon his investment. A recent news item in the local press stated that a Spokane man had invested \$1,250,000 in 5½ per cent bonds. It is government which renders such an investment secure and income thereon certain. From the standpoint of equity it is impossible to justify the exemption of such an investment from taxation. There are extant in the United States more than thirty billion dollars of tax-exempt government securities.

Out of the breakdown of the general property tax, characteristic of every state, there has grown up an insistent demand for tax reform and certain marked tendencies in that direction.

Among these tendencies is the trend from local to larger taxing units. This trend is well illustrated by the recent report of the School Code Commission in Washington. This commission recommended the substitution of the county-unit plan in place of the obsolescent district plan with its inevitable gross inequalities in taxation; and also that the burden of taxation should be shifted so that the state would assume a greater proportion of it. The same tendency appears in the report of the Washington State Tax Commissioner for 1918. In this report he asserts that "township assessment is a hindrance to that equality in taxation for which we are striving. . . . Concealment, falsehood, evasion, cajolery, and political wire-pulling are the rule."



Another noticeable trend in taxation is away from exclusive reliance upon a general property tax and toward the inclusion of some form of personal tax. In no other country in the world is the general property tax the chief source of public revenue, and it cannot continue to be such in this country. Poll taxes, gross-sales taxes, and income taxes are evidences of the tendency toward personal taxation. Intangible property cannot be successfully taxed except by holding that persons as well as property owe tax allegiance to government.

A closely related trend in taxation is that of basing it upon ability to pay rather than upon benefits received. Upon this basis an income tax is the best form of taxation. It seems likely also that such a tax is most nearly in accord with benefits received. The poll tax and the gross-sales tax place a disproportionate share of taxation upon those of little means. The tide in taxation is certainly in the direction of the income tax. It is probably only a question of time until every state will adopt the income tax as supplemental to, if not a substitute for, the general property tax.

From the standpoint of this analysis of taxation and its tendencies, let us examine the actual tax burden in state and nation. What are the people actually paying for the things which they enjoy in common? How true is it that the burden is becoming unbearably heavy? To what extent is the persistent outcry of "retrenchment" justified?

So far as the nation is concerned, the war has had the effect of increasing taxes at least fourfold. The disbursements of the general government rose from about one billion (\$1,147,898,991) in 1917 to almost nine billions (\$8,966,532,266) in 1918, and to more than fifteen billions (\$15,365,362,742) in 1919. For 1920 the appropriations were more than five and one-half billions (\$5,686,005,706), and it will be many years before they drop below three billions. The interest charge alone on the twenty-four billions (\$24,010,000,000) of national indebtedness is greater than the total pre-war cost of the government. The average tax for national purposes in 1920 was \$53.

An analysis of the purposes to which these enormous taxes were devoted is illuminating from an educational point of view.



Of the expenditures for 1920, past wars cost almost four billions (\$3,855,482,586), or 68 per cent. Preparation for future wars cost almost one and one-half billions (\$1,424,138,677), or 25 per cent, making \$.93 out of each tax dollar that went for past or future wars. Of the remaining 7 per cent, 1 (\$57,093,661) only was devoted to education, science, and research. The amount spent by the general government in 1919 was approximately the same as that spent for all educational purposes in the United States during the last half-century.

In view of this almost incredible situation are educators asking for an undue and exorbitant portion of national expenditure when, through the Sterling-Towner Bill, they request that two more cents out of each tax dollar be used for education? Retrenchment in national expenditures is undoubtedly urgently needed, but scarcely less urgent is the need for a shift in expenditures which will give recognition to the fact that an alert, intelligent, well-educated people is much more important in safeguarding the life of a nation than are battleships and armies.

Education has heretofore been regarded as a function of the states, rather than of the nation. It is to the states, therefore, that we must look if we attempt to ascertain the place which education holds and the tax burden which it imposes. The situation in Washington may be taken as fairly typical of the attitude of the people toward education and its financial support in the more advanced states.

The total of all direct taxes for all governmental purposes, local and state, levied in Washington in 1920 for payment in 1921 is \$72,665,820. The 1920 census gave the population of Washington as 1,356,314. Dividing the first number by the second, we get \$53.58 as the per capita cost of state and local government of all kinds in Washington for 1921. When these facts, compiled by the State Bureau of Inspection, were published, they were commented on by the local press as "appalling facts on taxation," a "stupendous total," pointing the way to "the vital need of rigorous retrenchment."

Whether retrenchment is or is not needed cannot be determined by the mere bulk of taxation. Rather it is a matter of balance



and proportion. Increase or decrease in the amount which people spend collectively in taxes should depend upon the wisdom of expanding or contracting the service which they are purchasing in common. Concerning any item of a budget, public or private, there is one pertinent question to be answered: Is it, everything considered, a bargain?

Applying this principle to education, whether more or less money should be spent on it depends upon whether an increase or a decrease in such expenditure is the wiser course. The total amount of tax levied in Washington for education by the state, by counties, and by local districts is \$28,490,862. This includes the levy for higher institutions as well as for the public schools and is a per capita expenditure of \$21. If this amount now being spent for education is inadequate for the purpose, if this money rightly regarded is not merely an expense but a most valuable form of investment, then increased expenditure, rather than retrenchment, is the vital need.

There has been a constant expansion in the service rendered by education. Merely to enumerate some of the newer features of school work is sufficient to indicate how much greater this service is now than it was some years ago. Among the more important features added are evening schools, physical education, manual training, household arts, parental schools, medical inspection, vocational education, and various special classes. Patrons demand better and more sanitary buildings, better heating, lighting, plumbing, and equipment, gymnasiums, playgrounds, and auditoriums.

Aside from rendering a greater service than formerly, the schools are rendering it to a greater proportion of the population and for a longer time. Compulsory and part-time education make additional demands upon the attendance of children. In the last thirty years the registration in public high schools in the United States has increased more than eleven times as fast as the increase in population. The length of the school year has increased greatly. Kindergartens reach downward, junior colleges and higher institutions upward. Public education seems destined to be for all of the children of all the people all of the time.



In considering the wisdom of expending \$21 per capita for education in Washington, the main question cannot be as to the amount of this expenditure, but as to the returns from it as compared with other possible ways of spending. In an open letter on "Estimated Expenditures for Luxuries," dated June 11, 1920, the Secretary of the Treasury places the annual expenditures for luxuries at \$22,700,000,000, which is more than ten times the amount per capita spent for education in Washington. The per capita expenditure for tobacco in the United States is greater than for education in this state. The amount spent in the United States for "luxurious food alone is six times as great as the total budget for education" throughout the nation.

In the face of such facts and in view of the critical situation of the schools, particularly in respect to an adequate supply of trained teachers, retrenchment, however desirable it may be in other phases of government, as applied to education is a false economy. The future welfare of the state and nation demands greater and not less expenditures for schools.

The war, with its inescapable burden of national indebtedness and expenditure and its legacy of high prices, has brought about a crisis in educational affairs. The general property tax has broken down and some more equitable and satisfactory system must supplement it or take its place. What is our duty as educators? Are we to sit down passively in the presence of this educational crisis, or shall we actively endeavor to shape the outcome?

The answer to these questions, it seems to me, is that the problem of school finance is primarily our problem. If we genuinely believe in education, if we have the right kind of faith in its efficacy as a solvent of social problems, if we deserve our positions of leadership in education, if we have that vision without which the people perish, we shall do our utmost to aid in the solution of this problem. We should center attention upon it during the next two years. We should organize and work along the lines of research and publicity. Paraphrasing van Dyke, "of all who live we are the ones by whom this work can best be done in the right way."